All Net

A Meaningful Way to Look at College Prices

SANDY BAUM

Recent headlines about spiraling college prices combined with congressional proposals to penalize colleges and universities that increase their tuitions much faster than the rate of inflation could lead one to conclude that America faces an unprecedented crisis in college affordability. Closer examination of what students actually pay for college, however, reveals a different story.

It is true that tuition has increased rapidly at public colleges and universities over the past two years. At America's public four-year colleges, average tuition and fees (weighted by full-time enrollment levels) rose by 14 percent between 2002 and 2003, following an 8 percent increase the previous year. Over the decade from 1993 to 2003, tuition and fees rose by 47 percent at these institutions, after adjusting for inflation. During the same period, tuition and fees rose by 42 percent in real terms at *private* four-year colleges and universities.

But tuition actually grew more significantly in the preceding decade, when public four-year tuition rose by 54 percent and private four-year tuition rose by 50 percent in real terms. Likewise, this decade's 42 percent real increase at public two-year colleges compares with a 64 percent increase from 1983 to 1993. In other words, rapid increases in the price of attending college are not new.

In addition to putting the numbers into a historical context, it is important to consider some of the factors that complicate the issue of college affordability. One explanation for how so many students are managing to pay for college is that 25 percent of full-time students (and 43 percent of all students) attend two-year public colleges, where tuition and fees for state residents are low—averaging $1,905 nationally in 2003. Among full-time students enrolled in four-year colleges, almost 30 percent attend institutions that charge tuition under $4,000, according to the College Board. About 70 percent attend institutions that charge under $8,000.

National averages also conceal considerable geographical variations in college prices. In recent years, college tuition has grown less rapidly in New England than in other parts of the country—by 22 percent in inflation-adjusted dollars at public four-year institutions and 35 percent at private colleges over the decade. This does not mean that college is more affordable in New England, however, because the region's college prices were significantly higher than the national average to begin with. The $6,035 price tag for the average public four-year college student in New England is more than $1,300 higher than the U.S. average. Tuition in other sectors is also relatively high in New England. And despite New England's relatively high family incomes, public four-year college tuition represents a larger share of family income in four of the New England states than it does nationally. (The exceptions are the particularly high-income states of Massachusetts and Connecticut.)

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While all this is important, it does not take into account the central role of financial aid in making college affordable for the majority of today's students. About 70 percent of full-time, first-time, degree-seeking undergraduates receive some form of financial aid, according to the National Center for Education Statistics. More than half receive grant aid. Although over half of all student aid is in the form of loans, grant aid per full-time equivalent (FTE) student has grown by 42 percent in real terms over the past five years—more rapidly than loans per student, according to College Board data. Because of this growth in grant aid, the *net price* paid by the average college student—tuition and fees after considering grants—has grown more slowly in every sector than has the published price, and has even declined in some years. It is the net price of college, the amount students and families actually pay—not the sticker price—that really determines affordability.

Understanding the role of grant aid in making college affordable is particularly important in the current political environment, with its focus on holding down published tuition levels. Student aid is the most rapidly growing component of costs in both the public

and private sectors. Severe restrictions on tuition growth would surely diminish the availability of institutional grant aid, actually causing the price paid by many students to increase. While the movement on the part of both states and institutions toward allocating grants on the basis of factors other than need is a serious problem in terms of access to college, the clear majority of aid dollars are still based on need. These grant dollars allow low-income students to pay lower net prices than more affluent students pay at the same institutions. Increasing need-based aid is a more effective way to make college affordable for low-income students than is moderating tuition growth, because the published tuition levels needed to generate adequate revenues for most colleges and universities will always be too high for large segments of the student population to afford.

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All the New England states except Vermont increased their need-based grant aid for undergraduates more rapidly than the national average between 1996 and 2001. And Vermont still had the sixth highest need-based grant aid per resident college-age population in the country—and the highest in New England—at the end of this period. New Hampshire and Rhode Island, in contrast, provide significantly lower levels of grant aid than most states.

The amount of need-based grant aid available from federal and state governments and from colleges and universities, combined with tuition and fee levels and income levels, determines the affordability of higher education.

Increased access to quality college education should be near the top of the public agenda. Rapidly rising tuition levels are certainly a problem but the diminished focus on directing subsidies toward the students who need them most poses a more serious threat to access. Efforts to keep college affordable should focus on predictable and adequate public funding for institutions and on need-based aid, not on the more visible annual percentage increases in published tuition levels.

***Sandy Baum** is a professor of economics at Skidmore College in New York and senior policy analyst at the College Board.*